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Supreme Court of the United States

OCTOBER TERM, 1945

NO. [redacted] 28

ALPINE MacGREGOR, Petitioner,

v.

WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY, Respondent.

MEMORANDUM FOR RESPONDENT OPPOSING PETITION FOR REHEARING

JO. BAILY BROWN,
Counsel for Respondent.

First National Bank Building,
Pittsburgh, Pa.

SMITH BROS. CO. INC., LAW PRINTERS, 434-438 BOULEVARD OF ALLIES, PITTSBURGH, PA.

Supreme Court of the United States

OCTOBER TERM, 1945

NO. 410

ALPINE MacGREGOR, Petitioner,

v.

WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY, Respondent.

MEMORANDUM FOR RESPONDENT OPPOSING PETITION FOR REHEARING

On February 11th this Court entered an order affirming the decision of the Supreme Court of Pennsylvania by an equally divided Court. Petitioner now asks for a rehearing. We understand, of course, that argument on the merits is not pertinent in opposition to such a petition. However, there are certain considerations which we feel may be of help to the Court in determining whether it should grant the petition for rehearing.

By way of preface, for the convenience of the Court, and not as argument, we state that our position was and is, *inter alia*, that this case presents no federal question because it is simply a suit in a state court to require petitioner to pay royalty accrued and due under a patent license. Petitioner-defendant relied below primarily upon the argument that two of the three solders he is

making do not come under the patent upon which the license was granted. Evidence was introduced to limit the scope of the patent in order to put the two solders outside the claims. The decision of the trial court on the merits of that defense was that the licensed patent does cover the two solders in question and therefore royalty is payable thereon. That decision was twice affirmed on appeal by unanimous decisions of the Supreme Court of Pennsylvania.

Incidentally, and apparently as a secondary line of defense, petitioner-defendant in the trial court pleaded that the license contract as a whole is unenforceable because it contains price-fixing clauses, and because, he alleged, the licensed patent is invalid. Petitioner apparently did not then attach much importance to the defense of invalidity of the patent and illegality of the contract as a whole since he, testifying *pro se* stated that he then regarded the license as in full force and effect as applied to his third form of solder, that if he made any more of that third form of solder he expected to pay the agreed royalty thereon, and that he was then maintaining the Westinghouse prices for that third form of solder. See quotation in our main brief at pages 18-20, and MacGregor's testimony at R. 93-4. Thus, on its face, petitioner's position, now urged in this Court, that the patent is invalid, the contract as a whole illegal, and that he has been a victim of fraud and oppression, is substantially different from what it was at the trial. If the patent is so utterly and obviously bad as petitioner argues to this Court, petitioner's position in the trial court, which was stated to be based on advice of counsel, was extraordinary indeed.

The trial court in addition to deciding that defendant's two contested forms of solder come within the scope of the patent, and that royalty thereon must be paid in accordance with the terms of the contract, at the same time held the price-fixing clauses of the license divisible and severable, and that since those clauses are not in suit, their validity is moot so far as the case before the trial court is concerned. See conclusions of law 1, 2, 3, 6, 7, and 10, at R. 175-6. Those conclusions were accepted and approved on appeal. See R. 245.

It seems to us that when petitioner-defendant in the trial court asserted that he then regarded the license as in full force and effect, and that he proposed to respect his obligations thereunder in the matter of paying royalties and even in maintaining prices upon any product properly covered by the patent (R. 92), he waived any right to raise any issue involving consideration of validity of the patent or legality of the contract as a whole, even if otherwise such an issue might have been raised, and that he should not be allowed to change that position in this Court.

Petitioner's Duplicity Negatives His Right to be Further Heard by This Court

We respectfully urge that petitioner's conduct and procedure in this Court constitute an attempt to deceive the Court as to the record and issues involved, sufficient to justify *per se* a refusal to grant him any further hearing,—even if otherwise there might have been basis for it. In support of this position, we point out specific instances in which MacGregor has misinformed this Court.

1. Petitioner's counsel stated in his oral argument that Macgregor had been required to maintain *re-sale* prices of the licensed products. That statement is directly contrary to the record, which negatives the assertion beyond any possible doubt. It was an obvious effort to catch the attention of the Court with a false issue.

The trial court's findings of fact specifically hold not only that there was no requirement in the contract to maintain re-sale prices, and that MacGregor was not required in any way to fix re-sale prices, but that on the contrary he was specifically informed in writing that he was not required to fix re-sale prices. See findings 28, 29, and 30, R. 162-3.

Finding 30 of the trial court (R. 163) is as follows:

> "30. MacGregor was never required under the license contract or otherwise to fix re-sale prices on licensed solder sold by him."

That finding was based not only upon the testimony of MacGregor's own witness (R. 44-7), but upon contemporaneous correspondence between the parties. See R. 127-30.

That finding was assigned as error on a review of the trial procedure by the court *in banc*. See "Twelfth" assignment, R. 179. It was dismissed. See R. 199. Error on this specific point was also assigned on appeal to the Supreme Court of Pennsylvania. See assignment 22, R. 234. The appellate court sustained the trial court (R. 245).

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2. At page 3 of the Petition for Rehearing, petitioner misstates the decision of the court below, saying—

> * * * "the Supreme Court of Pennsylvania has held petitioner estopped from setting up illegality of a price-fixing contract prohibited by the Sherman Act. * * *"

Of course the court below made no such decision. Applying established principles of Pennsylvania's law in contract cases, it held the price-fixing clauses divisible, and severed them from the clauses governing the simple suit for royalties presented to it. Having applied the principle of severability to the price-fixing clauses, no federal question remained in the case from any point of view and none had to be or was decided.

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3. Petitioner's counsel stated in oral argument to this Court that the state courts had passed upon the validity of the licensed patent, holding it valid, and argued therefore that this Court has before it for decision the issue of validity of the licensed patent. In addition to the oral argument on this point, we call attention to petitioner's Reply Brief in this Court at Page 2, which says—

> "The lower court did decide the question of validity of the Jones patent on the merits * * *".

That statement is directly contrary to the record. Petitioner thereby gave this Court a false impression of the issues before it, in an attempt to lead this Court into considering validity of the patent.

The fact that the state courts did not pass upon the validity of the licensed patent on the merits appears abundantly throughout the record, and there is no room for considering the misstatement inadvertent.

At R. 231, MacGregor's ninth assignment of error to the Supreme Court of Pennsylvania was as follows:

> "The Court erred in its ninth conclusion of law that defendant, being a licensee, and the price-fixing clauses of the license not being in suit, is estopped to attack validity of the patent under which he is licensed. * * *".

The Supreme Court of Pennsylvania in its opinion at R. 235 said—

> "The trial court did not pass on the validity of the patent."

It went on to say—

> "Appellee concedes that if a failure to pass on the validity of the patent was error, a new trial should be ordered and no other question need be decided in this Court."

The opinion then considers whether or not the Sola case "removes the estoppel ordinarily on a licensee to attack the validity of the patent when the license contract provides for price-fixing." (R. 237). Then at page 240, the Supreme Court of Pennsylvania reached its conclusion, stated in the following words—

> "We reject, as did the court below, the contention of MacGregor, the defendant, that the presence of a price-fixing clause in a patent license agreement gives the licensee the right to attack the validity of the patent, regardless of whether the price-fixing clause is involved in the litigation to recover royalties."

Evidence offered for the purpose of attacking validity was specifically excluded. That appears, for example, at the bottom of R. 64.

In view of the foregoing record citations it is clear that neither of the state courts below considered validity of the patent on the merits, but on the contrary they held that issue not involved because of licensee's estoppel. Consequently, there was no record or argument in the lower courts on the issue of validity, and there is no record in this Court for considering validity even should it hold that validity should have been decided on the merits.

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4. The whole basis for the petition for certiorari completely fails, when petitioner states as he does in his reply brief at page 2—

> "The lower court did decide the question of validity of the Jones patent on its merits * * *".

That is not true, as we have just shown, but if petitioner's present statement to this Court be accepted, obviously there was no basis for certiorari. If the Pennsylvania Courts considered and decided validity of the patent on the merits as petitioner now asserts, the courts below gave the Sola case exactly the construction which petitioner is here contending for, no Federal right was involved, and petitioner lost on the merits on all issues below. Accepting at this point petitioner's present statement to this Court, it would follow that the Pennsylvania courts held the patent valid and the price-fixing clauses legal. The contract therefore as a whole is cleared of any basis of attack upon it. Accepting either of defendant's irreconcilable positions, there is no basis for this Court to consider on the merits validity of the patent.

Petitioner got into this Court in the first place by arguing that the Pennsylvania Court incorrectly *refused*

to consider validity of the licensed patent. Then having gotten into this Court by that assertion, he now shifts position and says the Pennsylvania courts "did decide the question of validity of the Jones patent on its merits," —holding the patent valid. Therefore he now argues that since validity was adjudicated below, this Court has before it for direct review on the merits the decision of the courts below on the question of validity. We cannot believe that such a trick can be practiced successfully in this Court.

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5. In the oral argument, counsel concluded by going off the record in a remarkable way to appeal for sympathy on the statement that petitioner had not been given a fair trial in the Pennsylvania trial court, stating *inter alia* that the trial Judge was a woman, that she would not allow petitioner to put in his evidence, etc. He concluded by saying in effect that if the case were remanded for new trial petitioner would not be able to obtain justice in the trial court. We had not expected to be confronted with such tactics in the Supreme Court of the United States, and made no reply to that argument.

That it was unfounded and misleading appears from the statement of the Supreme Court of Pennsylvania, at R. 244:

> "This case was well tried by Judge Soffel of the Court below. The adjudication is comprehensive, the findings of fact are based upon competent evidence and the legal conclusions are sound."

The Chicago Case is Not Parallel in either Facts or Law

Petitioner argues at pages 8-9 of the Petition for Reargument that there is a direct conflict between the decision of the Seventh Circuit Court of Appeals in the *Chicago v. Katsinger* case, and the Supreme Court of Pennsylvania in the present case. As we understand the statute (Judicial Code 237 a), conflict of decision of a state and a federal court does not give this court jurisdiction by certiorari. It is conflict between decision of federal courts that is referred to in the jurisdictional statute.

On page 8, petitioner states that "there will be a direct conflict" between that case and the case at bar. On the next page he states that the facts of the *Chicago* case and the one at bar "are identical." On page 11 he says there is "direct conflict" between our case and the *Chicago* case, and that the two decisions are "diametrically opposed" and "irreconcilable."

Those statements are not correct. The two cases are in fact quite different. The *Chicago case was an infringement suit, not a suit for royalties due, but not paid, under a license contract, as in the case at bar.* In the *Chicago* case the license had been cancelled. The former licensee then brought a declaratory judgment action to have the patent declared invalid and not infringed. The former licensor then counterclaimed *charging infringement.* The matter of estoppel arose *under an express provision of the cancelled license,* to the effect that if licensee cancelled he must stop manufacture, and that if he continued to manufacture after

cancellation he would be estopped (in an infringement suit) from denying validity of the patent. See the quotation from the contract in the footnote to page 293 of 139 F. (2). In the case at bar it is provided that if the license is cancelled MacGregor shall be relieved of any prejudice due to prior existence of the license (R. 126).

A further difference arises from the fact that (as appears at page 293 of 139 F. (2) in the *Chicago* case the licensee had "elected to terminate this license agreement," whereas, as we have shown above and in our main brief, MacGregor at the trial of this case recognized his continuing obligations as a licensee. He is therefore bound, from any point of view, to pay the royalties which he agreed to pay.

Aside from that, there is a controlling difference in that in the *Chicago* case the price-fixing clauses of the license contract there involved were held *inseverable*, whereas in the present case those clauses of the contract here in suit were held *severable* under Pennsylvania law. In this case those clauses *have been severed* and their legality rendered moot by the decision of the Supreme Court of Pennsylvania. That is a clear and controlling distinction in the decisions.

In view of the differences in the facts of the *Chicago* case and the case at bar, there is no point to the prayer, in the last paragraph of the Petition for Rehearing, that the Court stay issuance of its mandate during the present term of court, to await the possibility that there might be a petition for certiorari, and that the Court might grant it, in the *Chicago* case. Since, as pointed out above, there is no parallel state of facts in the cases in the Supreme Court of Pennsylvania and the Seventh

Circuit Court of Appeals,—one being a suit for royalties on a license contract, the other a straight infringement suit,—any further action taken in the *Chicago* case could hardly control the decision on the facts of the case at bar.

At the argument of this case, the Chief Justice, requested counsel for respondent to file a memorandum of cases on the right of licensor to collect accrued royalty under a license up to the time of adjudication of invalidity of the licensed patent. Counsel was unable, due to a following case in which he had sole responsibility, to prepare and file that memorandum immediately. It reached the Court a day or so after its order of February 11 was entered, but before notice of the order was sent out. It was returned unfiled by the Clerk. Since that memorandum may have a bearing on the present petition for a rehearing, leave is asked to file it now, and it is forwarded to the Clerk herewith. The cases therein discussed indicate that MacGregor would have had to pay accrued royalties in this case even had the trial court found the patent invalid.

Conclusion.

Petitioner has attempted to confuse and mis-state the record and issues to this Court. To get himself into this Court he asserted that the state court denied him the right to attack validity of the licensed patent. Having succeeded in that, he now tries to change the issue, arguing that the real issue for this Court to decide is validity of the patent, stating in his reply brief (for the first time) that the Court below decided validity on the merits.

We submit that the petition for rehearing should be denied.

Respectfully submitted,

JO. BAILY BROWN,
Attorney for Respondent.

RALPH H. SWINGLE,
Of Counsel.

March 6, 1946.

SUPREME COURT OF THE UNITED STATES

No. 28.—October Term, 1946.

Alpine MacGregor, Petitioner, v. Westinghouse Electric & Manufacturing Company.	On Writ of Certiorari to the Supreme Court of the State of Pennsylvania.

[January 6, 1947.]

Mr. Justice Black delivered the opinion of the Court.

This case, like that of *Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, Nos. 70, 71, this day decided, involves the right of a patent licensee to defend a suit for royalties only under a licensing agreement which contains a price-fixing provision. Certain subsidiary questions are also raised.

Westinghouse Electric & Manufacturing Company owned Jones' Patent No. 1,651,709. The invention claimed was a brazing "solder comprising copper and phosphorous as the main and essential constituents." Westinghouse sued MacGregor for infringement. The litigation was settled, and MacGregor took a license from Westinghouse authorizing MacGregor to make, use, and sell solder containing the constituents described in Westinghouse's patent claim. MacGregor agreed to pay 10% royalties on the net selling price of the solder. Sections 5 and 6 of the license agreement, set out below,[1] required MacGregor to

[1] "5. Westinghouse grants this license on the express condition that the prices, terms and conditions of sale for use or sale in the United States of America, its territories and possessions of brazing solders embodying the invention covered by said Letters Patent and so long as such brazing solders continue to be covered by said patent, shall be no more favorable to the customer than those which from time to time Westinghouse establishes and maintains for its own sales of similar or competing brazing solders under such patent to such or other similarly situated customer purchasing in like quantities. Mac-

sell the solder for no less than the price Westinghouse charged its own customers. MacGregor paid royalties on solder he made and sold which contained only phosphorous and copper. Later he began to make and sell solders composed of phosphorous, copper, and tin, or phosphorous, copper, and silver. For a time he paid royalties on these. But he also applied for and obtained patents on these two latter solders which added tin and silver respectively to the phosphorus-copper combination.[2] MacGregor then declined to pay royalties on these solders on the ground that they were not covered by Westinghouse's patent. Westinghouse brought this suit for an accounting and payment of unpaid royalties in a Pennsylvania State court. MacGregor filed an answer denying liability and a counterclaim. His answer asserted that the solders which were described in his patents were not covered by Westinghouse's patent. He alleged that the effort of Westinghouse to make him pay royalties on these solders constituted an unlawful exercise of Westinghouse's patent monopoly and that Westinghouse should not be allowed to recover in the courts for this reason. In a counterclaim, he maintained that by inadvertence and mistake he had paid royalties on solders covered by his own

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Gregor shall be notified of all such prices, terms and conditions of sale fixed by Westinghouse.

"The prices terms and conditions of sale of Westinghouse may be changed by Westinghouse from time to time, notice being given MacGregor, but not less than five days' notice shall be given before any such change shall go into effect.

"6. It is agreed that it shall be regarded as an evasion of this agreement amounting to a breach thereof for MacGregor to reduce Westinghouse's sale price or alter Westinghouse's selling terms and conditions of sale directly or indirectly either through its own organization, its agents or others by any device, subterfuge or evasion or by any means whatever or to make the prices lower or the terms or conditions more favorable than those set forth by Westinghouse."

[2] Copper, phosphorous and tin solder is Patent No. 2,125,680; copper, phosphorous and silver solder is Patent No. 2,162,627.

patents. He charged that if the Westinghouse patent should be construed to cover these latter solders, it was invalid. He further contended that the price-fixing provision was a violation of the Sherman Act and the Clayton Act and constituted an unlawful use of Westinghouse's patent monopoly which rendered the whole license agreement illegal.[3] In his counterclaim MacGregor asked, not only for judgment for refund of the royalties alleged to have been inadvertently paid, but also for damages on account of the illegal restraint imposed upon him by the agreement.

The State trial court declined to consider the validity of the patent, holding that it was presumed to be valid, and that MacGregor as a licensee had no right to challenge it. Assuming the patent and all the claims in it to be valid on this theory, the State court found the claims broad enough in scope to cover all the solders manufactured and sold by MacGregor. The trial court did not give a like presumption to the validity of the patents issued to MacGregor, but held that the solders covered by those patents infringed the

[3] The agreement to fix prices, if unlawful at all, was so whether it was executed or not. *U. S.* v. *Socony Vacuum*, 310 U. S. 150; *U. S.* v. *American Tobacco Co.*, 328 U. S. —, —. But this agreement by MacGregor to sell at fixed prices was no mere token, for the trial court found that on July 11, 1940, Westinghouse called MacGregor's attention to his obligation to observe user and distributor prices, and that on October 23, 1940, Westinghouse, through one of its attorneys, wrote MacGregor's attorney that "if MacGregor sells direct to the user he should conform to the user prices established, and when he sells direct to the dealer, he should conform to the dealer prices established." The oral testimony of Westinghouse's representatives construed the contract as requiring MacGregor to maintain the prices. Moreover, the record before us shows that MacGregor positively testified that he had maintained the Westinghouse prices on the copper-phosphorus combination because he considered himself bound to do so under the license contract.

presumptively valid patents of Westinghouse.[4] The State supreme court affirmed. 350 Pa. 333. It agreed with the trial court that MacGregor was estopped to attack the validity of Westinghouse's patent. It recognized that there could be no estoppel in the present case under our decision in *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U. S. 173, but for its interpretation of the *Sola* decision as applying only to suits in which the licensee sought affirmative relief to enforce compliance with the price-fixing provision. Since no such relief was asked in this case, the State supreme court felt that there was no existing controversy which involved the price-fixing provision—that the questions of their effect and validity were "moot." Thus it assumed, as did the petitioner in *Katzinger* v. *Chicago Metallic Mfg. Co.*, *supra*, that a royalty agreement was severable from price-fixing covenants. For the reasons stated in today's *Katzinger* opinion we hold that the covenant to pay royalties was not severable from the covenant to sell at fixed prices. Since MacGregor invoked federal law to sustain his challenge to the validity of the patent, the alleged misuse of the patent, and the price-fixing covenant, his contentions raised federal questions not governed by state estoppel or contract severability rules. *Sola Electric Co.* v. *Jefferson Electric Co.*, *supra*, 176–177; *Scott Paper Co.* v. *Marcalus Co.*, 326 U. S. 249. Accordingly, we hold as a matter of federal law that the State supreme court was wrong in affirming the judgment in this cause on the ground that the licensee, MacGregor, was estopped to offer proof of his allegation of invalidity. This error will require, as the

[4] Since the case is to be remanded for trial of the validity of the patent, we find it unnecessary to consider the propriety in any event of indulging a presumption of validity in favor of Westinghouse's patent without giving a presumption of a patentable difference to those of MacGregor. See *Miller* v. *Eagle Manufacturing Co.*, 151 U. S. 186, 208.

State court anticipated, that the cause be remanded for a new trial to determine the validity of Westinghouse's patent. For we do not think that the present state of this record justifies acceptance of MacGregor's contention that we should now pass on validity of the patent. If it be determined on remand that the patent is invalid, there is no question but that, as MacGregor contends, the price-fixing agreement violates the anti-trust laws. *Katzinger* v. *Chicago Metallic Co., supra; Sola Electric Co. v. Jefferson Electric Co., supra,* at 175; *Scott Paper Co.* v. *Marcalus, supra.*

But there are alternative federal questions raised here by MacGregor upon which decision might turn even though Westinghouse's patent be held valid. MacGregor pleaded that the price-fixing agreement so effectively wiped out all competition to Westinghouse in the manufacture and sale of these solders that the whole license contract should be held illegal as a violation of the Sherman and Clayton Acts. MacGregor also contended that the license contract should be held unenforceable in the courts on the ground that Westinghouse had attempted to use it to extend the patent's scope beyond its lawful coverage. But since the cause must again be tried in the State court we shall not pass on either of these contentions at this time.

The judgment is reversed and the case remanded to the Supreme Court of Pennsylvania for proceedings not inconsistent with this opinion.

Reversed and Remanded.

SUPREME COURT OF THE UNITED STATES

Nos. 28, 70 AND 71.—OCTOBER TERM, 1946.

Alpine MacGregor, Petitioner, 28 *v.* Westinghouse Electric & Manufacturing Company.	On Writ of Certiorari to the Supreme Court of the State of Pennsylvania.
Edward Katzinger Company, Petitioner, 70 *v.* Chicago Metallic Mfg. Company.	On Writ of Certiorari to the United States Circuit Court of Appeals for the Seventh Circuit.
Edward Katzinger Company, Petitioner, 71 *v.* Chicago Metallic Mfg. Company.	

[January 6, 1947.]

MR. JUSTICE FRANKFURTER, with whom concur MR. JUSTICE REED, MR. JUSTICE JACKSON and MR. JUSTICE BURTON, dissenting.

The Court deems the issues in these cases to be controlled by our decision in *Sola Electric Co.* v. *Jefferson Co.*, 317 U. S. 173. Such is not my understanding of the *Sola* decision. These cases cannot be properly decided, I believe, without consideration of one of the oldest doctrines of the patent law, namely, that a licensee cannot challenge the validity of the patent though everyone else may.

(1) Ninety years ago this Court unanimously announced the doctrine that a licensee under a patent is estopped from challenging the validity of that patent. *Kinsman* v. *Parkhurst*, 18 How. 289. The case may perhaps be explained, or even explained away. But the rule it expressed had become so much part of our law that fifty years later the Court deemed it unnecessary to discuss it and unanimously applied it even against the United States as licensee. *United States* v. *Harvey Steel Co.*, 196 U. S. 310. It is significant that the licensee in that case, while

vigorously contesting its liability upon the particular facts, conceded that the doctrine of estoppel was law "as a general proposition".

(2) Before those cases and since, in all English-speaking jurisdictions, in the courts of England, of the Dominions and of the various States, as well as in the lower federal courts, where most patent litigation originates and stops, a weighty body of cases affirmed and applied that doctrine with rare unanimity.[1] This Court has never questioned the rule.[2] The principle has withstood judicial scrutiny for nearly a century.

(3) Nor has the operation of the rule revealed inroads upon the public interest so as to stir efforts for its abrogation or restriction by Congress. Patent policy has been frequently reconsidered, and some rules formulated by courts were eliminated or modified. Yet in none of the four major patent statutes nor in any of the other numerous amendatory enactments was attempt made to abolish or limit estoppel in favor of the licensor.[3] The Patent Office, charged by Congress with supervision of the patent system and the source of many suggestions enacted into law, has never included among its proposals recommendation to alter that doctrine.

(4) Not until 1942, apparently, was legislative correction invoked, and even then only partially. Several

[1] The early cases are collected in 14 Ann. Cas. 1184. Note also the unanimity among the authors of treatises. Amdur, Patent Law and Practice 598; Ellis, Patent Assignments and Licenses § 602 *et seq.*; 2 Frost, Patent Law and Practice 201; Moulton, Patents 244; Rivise and Caesar, Patentability and Validity § 10; 2 Robinson, Patents § 820; 2 Walker, Patents (Deller's ed.) § 383. And see the cases cited, especially in Walker, Patents, *supra*.

[2] *Cf. Eureka Company* v. *Bailey Company*, 11 Wall. 488, 492; *Eclipse Bicycle Company* v. *Farrow*, 199 U. S. 581, 587.

[3] See Patent Act of 1790, 1 Stat. 109; Patent Act of 1793, 1 Stat. 318; Patent Act of 1836, 5 Stat. 117; Patent Act of 1870, 16 Stat. 198. See also the subsequent minor enactments, summarized, J. Pat. Off. Soc., July 1936, pp. 103–22. And see 1 Walker, Patents (Deller's ed.) Appendix.

bills were introduced to permit contest of the validity of a patent in anti-trust suits. See S. 2730, Aug. 20, 1942; H. R. 7713, Oct. 15, 1942; H. R. 109, Jan. 6, 1943; H. R. 1371, Jan. 20, 1943. Only in the latest bills to be introduced is it proposed that "In any proceeding involving a violation of the antitrust laws or involving a patent or any interest therein, a party shall be entitled to show the invalidity or the limited scope of any patent or patent rights involved." H. R. 3874, Dec. 18, 1943; H. R. 97, Jan. 3, 1945; H. R. 3462, June 13, 1945; S. 2482, July 26, 1946. Not one of these bills has yet reached the floor of Congress.

(5) If ever a doctrine has established itself as part of our law to be respected by the judiciary this is it. If it is to be changed, Congress is there to change it. Perhaps Congress will see fit to reexamine the doctrine in all its ramifications in the light of its history and the experience under it, and with due regard to all factors relevant to our patent system. We cannot do that. We can only adhere to the doctrine or overrule it. Until Congress does undo a principle so embedded in our law, we should leave it where we find it.

(6) But in any event, if we are to wipe out so settled a phase of our law it should be done explicitly, not cryptically. In my judgment the *Sola* decision does not give adequate support for the Court's opinion. The cases before us necessarily involve the estoppel doctrine and cannot be disposed of without appearing to overrule a settled course of decision.

(7) No doubt the *Sola* case, like these two, arose out of a claim for royalties under a patent license. But that there was a claim for royalties was hardly mentioned in the Court's opinion in the *Sola* case. The sole issue to which our attention was directed was a prayer that the licensee be enjoined from breach of his promise to abide by the prices fixed by the licensor for the sale of articles manufactured under the patent. Ever since the decision

in *Dr. Miles Medical Co.* v. *Park & Sons Co.*, 220 U. S. 373, this Court, as a matter of judicial policy reflected in legislation, has denied enforcement of agreements not to sell goods below a fixed price. And so this Court has been on the alert not to allow an exception to what is a Congressional as well as a judicial policy unless the basis for it is clean and clear.

The precise issue which we decided in the *Sola* case is not a matter for inference or conjecture. It was explicitly defined and delimited. "The question for our decision", the late Chief Justice wrote, "is whether a patent licensee, by virtue of his license agreement, is estopped to challenge a price-fixing clause in the agreement by showing that the patent is invalid, and that the price restriction is accordingly unlawful because not protected by the patent monopoly." 317 U. S. at 173. That was the issue in the *Sola* case. It was not whether a licensee may challenge the validity of a patent when sued for royalties. It was not whether a provision for price-fixing undermined rights under estoppel against a licensee. It was whether the licensor could show the special dispensation pertaining to the holder of a valid patent, which entitles him to fix the price of a commodity manufactured under his patent, although such a pricing agreement would be unenforceable in the generality of cases. What was sought and what was denied in *Sola* was the active benefit of a price-fixing clause.

(8) In the cases before us price-fixing is not in issue.[4] We are not asked to allow the licensor to have the benefit

[4] "In the instant case the court has not been requested either directly or indirectly to require MacGregor to maintain Westinghouse prices. By his own testimony he has not maintained them. The price-fixing clause is not in issue. It is raised merely as a defense to a suit for accounting and payment of accrued royalties." Discussion of findings by trial court in the *MacGregor* case.

As to the *Katzinger* case the District Court opinion found that "no price fixing by the respondent has been proved by the petitioner. . . . At no time did the respondent attempt to carry it out

of a practice available only under a valid patent. To grant relief here will not, unlike the *Sola* case, approve a practice *prima facie* in restraint of trade. What we here have to decide is whether we shall allow the licensee to repudiate an agreement for the payment of money made in an arm's length transaction. For nearly a hundred years this Court has uniformly answered that question by using the legal shorthand of estoppel.

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and the respondent was at all times willing to have same removed from the contract." Further, a specific finding of fact was that "Respondent was always willing to eliminate the price fixing provisions of the license agreement, and these provisions terminated *ipso facto* upon termination of the license by petitioner." It was on the basis of the facts so found by the District Court that the Circuit Court of Appeals held, when the estoppel issue was before it, that the mere presence of a price-fixing clause in the licensing agreement, whatever its setting and however inoperative, precluded estoppel against the licensee. 139 F. 2d 291. With the estoppel issue thus eliminated, the case was returned to the District Court to pass on the validity of the patent. Inasmuch as the Circuit Court of Appeals had found that the District Court had erred in its decree enforcing estoppel, the previous findings regarding estoppel became irrelevant and fell with the reversed decree. These findings, however, did not cease to be part of the record before the Circuit Court of Appeals on the first appeal. It is that decision, with the record on which it is based, that is now before us. If the Circuit Court of Appeals had enforced estoppel, the decree of the District Court and the findings on which it is based would not have been vacated. The findings that were before the Circuit Court of Appeals on the first appeal are now before us on review of that court's decision.

The license agreement provided for royalties based on a percentage of the net sales. The amount of the net sales was not fixed by agreement except insofar as certain scheduled articles called for a minimum price. The record does not show the prices at which the sales were made. Not only that, the claim of the licensee was that the articles for which royalties were claimed were outside the license. Plainly such articles were not included on the minimum price schedule and could not have been sold according to the scheduled price list. The claim for royalties, therefore, was not a claim for royalties at fixed prices.

(9). But if all the cases which have recognized and applied the doctrine of estoppel have been reduced, as apparently they have been, to derelicts, they should not be allowed to remain as obstructions on the stream of law. And not merely out of regard for the proper administration of law. The matter has practical consequences for all whose concern is patents. It is not questioned that a price-fixing clause in a license to manufacture under a valid patent falls outside the interdict of the anti-trust acts. *Bement* v. *National Harrow Co.*, 186 U. S. 70.[5] The power to fix the price of patented articles is part of the patent grant. It is a mode of maintaining the integrity of a patent and as such is sanctioned by public policy. All that the *Sola* case held, and the only thing it held, was that a valid patent is indispensable to this right to fix prices.

But whether an inventor has a valid patent is a matter of increasing uncertainty. Hitherto, under the estoppel doctrine, a patentee could be assured that he would not have to litigate the validity of his patent with those to whom he grants license rights under it. Under the present decision, he cannot have this assurance of freedom from litigation if, under reasonable belief that he has a valid patent, he inserts a price-fixing clause in the license, even though afterwards he merely asks for royalties.

What matters is not merely that a patentee must now choose between two safeguards of his patent grant. In the *Sola* case the licensor asked for the enforcement of a pricing agreement. Here the price-fixing agreement is

[5] Upon full consideration the principle of the *Bement* case was reaffirmed and applied in *United States* v. *General Electric Co.*, 272 U. S. 476. The latter case in turn was cited with approval in *Carbice Corp.* v. *American Patents Corp.*, 283 U. S. 27, 31. It is relevant to note that Mr. Justice Brandeis joined in the *General Electric* opinion and himself wrote the *Carbice* opinion. No member of this Court has been more resourcefully alert to protect the public interest from undue extension of the patent monopoly while at the same time observing the rights which Congress has seen fit to confer by the patent grant.

not brought into question and the patentee stands on his estoppel. This important difference is disregarded, the *Sola* case is deemed controlling, and the estoppel is left to fend for itself as a legal stray. By its silence, as by its reasoning in applying the *Sola* case, the decision will engender natural doubts as to the continuing validity of the estoppel doctrine even in those cases where no pricing agreement had ever existed. The result is that all future arrangements between licensor and licensee are overhung by a cloud of doubt as to what one who believes that he holds a valid patent should do in granting licenses under it.

If he insists on a price agreement to help maintain the integrity of his business, he runs the risk of losing his royalties since the mere existence of the price-fixing clause (which is all we have here) may find him entirely in the cold if it should turn out that the patent is not sustained. So long as the estoppel doctrine as such stands unrejected, the patentee may, therefore, prefer to forgo price-fixing and be satisfied with the bird in the hand in reliance on estoppel. But the upshot of the present decision is that the Court creates an unfair uncertainty as to the continued vitality of the historic estoppel doctrine. The result is that the patentee who forgoes his right to maintain prices in order to make certain that he can at least collect his patent royalties without the cost and uncertainty of litigation, may find himself caught in the optimism of his belief as to the vitality of the estoppel doctrine unembarrassed by any price-fixing provision. For he may have given up what he might otherwise assert as a patentee to make sure that he can in any event have what estoppel would give him. It would seem fair to pronounce now that the doctrine of estoppel has or has not survived so that those who deem themselves holders of patent rights might not suffer because they assumed that the Court would preserve that which by no intimation it purports to jettison.

(10) The problem before the Court can be treated as though it was the same as that in the *Sola* case only if a distinction with a difference makes no difference. It is one thing to refuse to enforce a contract restraining trade by price fixing unless positive justification is shown in the form of a valid patent. It is quite another to use the excuse of an inoperative price-fixing clause to allow a licensee to escape his otherwise valid promise to pay royalties.[6] Nowhere in the *Sola* case did the Court intimate that the decision rested upon the importance to the public economy of allowing challenge to the validity of a patent by those particular members of the public who in a fair bargain had agreed not to do so. In fact, the doctrine of estoppel, flowing from *Kinsman* v. *Parkhurst* and applied in *United States* v. *Harvey Steel Co.*, was explicitly noted only to be put to one side because "here a different question is presented." 317 U. S. at 175. It was again put aside in *Altvater* v. *Freeman*, 319 U. S. 359, 364.[7] The question which those cases did not have to meet should now be met otherwise than by disregard. The Court's essential reasoning would apply equally where the license never attempted to fix prices. If a doctrine that was vital law for more than ninety years will be found to have now been deprived of life, we ought at least to give it decent public burial.

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[6] The considerations that determine the granting of a license on payment of royalties are distinct from those that underlie an additional clause for price-fixing. They are not interdependent in fact and were not so treated by the parties; no artificial notion regarding consideration requires that they be treated as interdependent. On lesser considerations of policy than have guided the course of patent law, this Court has refused to treat separate provisions of a contract as integrated. See *Philadelphia, Wilmington & Baltimore Railroad Co.* v. *Howard*, 13 How. 307, 339; *Pollak* v. *Brush Electric Association*, 128 U. S. 446, 455.

[7] *Scott Paper Co.* v. *Marcalus Co.*, 326 U. S. 249, went on the ground that an earlier expired patent had put the device in question into the public domain.

SUPREME COURT OF THE UNITED STATES

Nos. 70 AND 71.—OCTOBER TERM, 1946.

Edward Katzinger Company, Petitioner, v. Chicago Metallic Mfg. Company.	On Writs of Certiorari to the United States Circuit Court of Appeals for the Seventh Circuit.
70	
Edward Katzinger Company, Petitioner, v. Chicago Metallic Mfg. Company.	
71	

[January 6, 1947.]

MR. JUSTICE BLACK delivered the opinion of the Court.

The question here is whether the defendant, in a suit to recover royalties only under a terminated patent license agreement containing price-fixing provisions, can challenge the validity of the patent despite a covenant in the license contract that he would not do so.

The petitioner, Edward Katzinger Company, and the respondent, Chicago Metallic Mfg. Company, make and sell tin baking pans. The undenied testimony was that Metallic sold its pans over a large part of the United States, probably in every state in the country. Katzinger became owner of Jackson patent No. 2,077,757 on a certain type of pan.[1] Metallic, accused of infringing, entered into a licensing contract under which, upon payment of stipulated royalties, it was authorized to manufacture and sell pans made in accordance with the claimed invention. Sections 3 and 11 of the license contract, set out below,[2] provided that Metallic, like all other licensees, should sell

[1] Other patents, originally in suit, are not involved in this case.

[2] "3. Licensor agrees that while this agreement remains in force and effect, if it permits others under license or other agreement to manufacture or sell articles or devices embodying or made in accordance with any of the patents or applications hereinbefore described,

these pans at prices fixed by Katzinger. Royalties were to be computed on the basis of "net sales" of articles "made in accordance with any of the patents or applications under this license." Section 14 provided that if Metallic elected to terminate the contract, without ceasing to manufacture the pans, Metallic should "be estopped from denying the validity of said patent . . . and be deemed an infringer thereof." Metallic maintained the patentee-fixed prices and paid royalties on pans deemed by it to be covered by the patent.[3]

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upon terms more favorable than those granted the Licensee hereunder, the Licensor shall immediately notify the Licensee hereunder and grant the same terms to the Licensee."

. . . . .

"11. Licensor reserves the right to establish a minimum sales price for the articles or products which Licensee is licensed to manufacture hereunder and to modify or change such minimum prices from time to time during the life of this agreement. The Licensor, as well as Licensee and any other person, persons or corporation licensed by Licensor, shall not, with the consent of Licensor, sell or offer for sale, or otherwise dispose of any of the licensed devices or products below said minimum sales price, or on more favorable terms of sale than those set forth in any such scale of prices so established by Licensor. contemporaneously with the execution and delivery of this license agreement, Licensee has received from Licensor a schedule of minimum prices, effective as of the date hereof, below which none of the products or devices made under this license shall be sold. Licensor reserves the right, upon thirty (30) days' notice in writing given by Licensor to Licensee, to change said minimum prices from time to time during the life hereof. On such articles or devices made and sold by Licensee as to which Licensor shall have failed or neglected to establish a minimum sales price, the royalty shall likewise be computed on the net sales price received by Licensee from its customers. Licensee or its duly authorized representatives shall have access from time to time to the books of account of Licensor during ordinary business hours for the purpose of determining whether or not Licensor has complied with the provisions of this paragraph."

[3] Of course it is the unlawful agreement, whether it is executed or not, which violates the anti-trust laws. *U. S.* v. *Socony Vacuum*, 310 U. S. 150; *U. S.* v. *American Tobacco Co.*, 328 U. S. —, —. In

A controversy later arose as to whether certain types of pans manufactured by Metallic were covered. Declining to pay royalties on this type of pan, Metallic gave notice of termination of the contract and initiated this action for a declaratory judgment praying that the court declare that the patent was invalid for want of invention and that the controversial pans were not covered by, and did not infringe, any of Katzinger's patents. Katzinger in an answer and counterclaim alleged, so far as material here, that the patent covered all the Metallic pans, that Metallic was estopped to challenge validity of the patent by § 14 of the contract, and that Metallic either owed royalties or was liable for infringement. It prayed, among other things, for an accounting for unpaid royalties which were to be computed at 2.5% to 5% of the sales price which was governed by the minimum price list attached to the license.[4] In the alternative it prayed that Metallic be required to account for profits and damages as an infringer. The District Court held that Metallic was estopped to challenge the validity of the patents, and, treating them as valid, found that the patent claims did cover all the pans. Accordingly, it ordered an accounting to determine royalties due for the period prior to termination of the license contract, and for infringement damages thereafter.

Relying upon our decision in *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U. S. 173, the Circuit Court of Appeals reversed. It held that the agreement to fix prices

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the cases here the parties stipulated that "in pursuance of this license agreement Metallic did, for a period of two years, more or less, exercise the license therein given by making certain tinware products, maintaining minimum prices and paying therefor applicable royalties." While the court originally made findings to the effect that Metallic did not attempt to carry out the price fixing agreement and was willing to have it removed from the contract, these findings were expressly vacated on remand.

[4] The schedule of minimum prices incorporated by reference into the license agreement was set out as an exhibit in Katzinger's counterclaim.

was inseparably connected with the agreement to pay royalties; that if the patent was invalid, the price-fixing provision violated the federal anti-trust laws; that conflict of the price-fixing provision with the anti-trust laws would make the agreement to pay royalties unenforceable; and that the District Court had erred in barring Metallic from challenging the patent's validity as a predicate to establishing the illegality and consequent unenforceability of the royalty covenant. The cause was remanded to the District Court to pass upon validity of the patent. 139 F. 2d 291. That Court then held the patent invalid and rendered judgment for Metallic. The Circuit Court of Appeals affirmed. 153 F. 2d 149. We granted certiorari because of a conflicting decision in *MacGregor* v. *Westinghouse Electric Co.*, 350 Pa. 333. The Pennsylvania Supreme Court in the *MacGregor* case ruled that price-fixing provisions in a license agreement such as the one before us were severable from the agreement to pay royalties, and read our *Sola* case as though it were a holding that a licensee was estopped to challenge a patent's validity except in cases where a licensor sought affirmative relief to enforce price-fixing provisions of a license.

We need not consider whether under the ruling of *Bement* v. *National Harrow Co.*, 186 U. S. 70, 87–91, these price-fixing provisions would be lawful if the patent were valid. The question here is entirely different. Nor need we, as it has been suggested, discuss this Court's opinions in *Kinsman* v. *Parkhurst*, 18 How. 289, and *United States* v. *Harvey*, 196 U. S. 310, which were concerned with particular circumstances there involved. In the *Sola* case we declined to examine these prior decisions, holding that neither of them was relevant because "no price-fixing stipulation was involved in the license contract" at issue in those cases. So here, it would be inappropriate to re-examine those decisions now. Under what other circum-

stances a federal rule of estoppel might be applied is a question which can be met when particular facts present it.

The *Sola* case reaffirmed past decisions holding that price-fixing agreements such as those here involved are unenforceable because of violations of the Sherman Act save as they may be within the protection of a lawful patent. That case held further that local rules of estoppel cannot screen such agreements from court scrutiny, and that federal courts must, in the public interest, keep the way open for the challenge of patents which are utilized for price-fixing of interstate goods. It is true that the licensee there not only sought a recovery of royalties, but prayed generally for an injunction to require observance of all the provisions of the license agreement, one of which provisions was for price-fixing. But that the chief object of that suit was to recover royalties and not to require observance of the price-fixing provisions is indicated by the fact that, while breaches of other covenants of the contract were alleged in the petition, and specific prayers for their observance were included, there was no charge that the licensee had breached the price-fixing covenant and there was no specific prayer to require observance of it. Nor did this Court indicate that the patent would have been immune from challenge had the licensee sued for royalties only. This would have permitted a licensor to be protected on an illegal contract merely because the licensee chose one remedy rather than another on the same substantive issue. If we had intended to draw such a fine line, it is hard to believe that such a careful writer as the late Chief Justice would have failed to indicate in the opinion or the mandate of the Court in the *Sola* case that on remand the trial court, while permitting challenge of the patent to defeat the injunction, must treat the price-fixing provision as severable and forbid challenge

for the purpose of defeating the claim for recovery of royalties.[5] That decision, instead of resting on such a narrow procedural base, was firmly grounded upon the broad public interest in freeing our competitive economy from the trade restraints which might be imposed by price-fixing agreements stemming from narrow or invalid patents. *Sola Electric Co.* v. *Jefferson Electric Co.*, *supra* at 177.

In *Scott Paper Co.* v. *Marcalus Co.*, 326 U. S. 249, it was held that even an assignor who had sold a patent issued to itself was free to challenge the validity of the patent and thereby defeat an action for infringement by showing that the invention had been described in an expired patent. In thus emphasizing the necessity of protecting our competitive economy by keeping open the way for interested persons to challenge the validity of patents which might be shown to be invalid, the Court was but stating an often expressed policy that "It is the public interest which is dominant in the patent system," *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U. S. 661, 665, and that the right to challenge "is not only a private right to the individual, but is founded on public policy which is promoted by his making the defense, and contravened by his

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[5] The cases cited in the *Sola* decision rejected contentions that the offending price fixing provisions should be considered severable from the rest of the contract and therefore enforceable. *See e. g., Bement* v. *National Harrow Co.*, 186 U. S. 70, 88; *Continntal Wall Paper Co.* v. *Louis Voight & Sons Co.*, 212 U. S. 227, 230, 266.

That this Court's attention was called in the *Sola* case to this question is shown by examination of the brief filed here for *Sola* which cited decisions of this Court to support a contention that the provisions for royalties and price-fixing were inseparable and that royalties must be denied if the price-fixing provision were illegal. *Morton Salt Co.* v. *Suppiger*, 314 U. S. 488; *Loud* v. *Pomona Land & Water Co.*, 153 U. S. 564, 576; *Williams* v. *The Bank of the United States*, 2 Pet. 96.

refusal to make it." *Pope Mfg. Co.* v. *Gormully*, 144 U. S. 224, 235.[6]

If the question of severability, urged by the petitioner here, were a new one, we should again arrive at the conclusion we reached in the *Sola* case. Metallic's obligation to pay royalties and its agreement to sell at prices fixed by Katzinger constituted an integrated consideration for the license grant. Consequently, when one part of the consideration is unenforceable because in violation of law, its integrated companion must go with it. See *Hazleton* v. *Schenckles*, 202 U. S. 71, 78. Moreover, solicitude for the interest of the public fostered by freedom from invalid patents and from restraints of trade, which has been manifest by the line of decisions of which the *Scott Paper Co.* and *Sola* cases are two of the latest examples, requires that there should be no departure from the guiding principles they announced.

The royalties here claimed accrued, if they accrued at all, prior to the time the license agreement terminated. Consequently, the fact of subsequent termination does not free the promise to pay royalties from the taint of the price-fixing provision. Nor does the fact, if it be a fact, that Metallic itself suggested the price-fixing provision, bar Metallic's challenge to the patent's validity. For the contract was still illegal, whoever suggested it, so that there is no less reason for leaving the way open to challenge the patent as a service to the public interest than if Katzinger had suggested price-fixing. Finally, Metallic's specific contract not to challenge the validity of Katzinger's patent can no more override congressional policy than can an implied estoppel.[6] See *Scott Paper Co.* v. *Marcalus Mfg. Co.*, *supra*, at 257 and cases cited.

Affirmed.

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[6] See *Morton Salt Co.* v. *Suppiger Co.*, *supra* at 492.